

HOUSE BILL REPORT

SSB 6063

As Reported By House Committee On:
Appropriations

Title: An act relating to the authority of the state investment board to invest and reinvest moneys in the emergency reserve fund.

Brief Description: Authorizing the state investment board to invest and reinvest moneys in the emergency reserve fund.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Loveland, West, Snyder and Oke).

Brief History:

Committee Activity:

Appropriations: 3/29/99, 4/5/99 [DP].

Brief Summary of Substitute Bill

- Transfers authority to invest the Emergency Reserve Fund from the State Treasurer to the State Investment Board.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 32 members: Representatives Huff, Republican Co-Chair; H. Sommers, Democratic Co-Chair; Alexander, Republican Vice Chair; Doumit, Democratic Vice Chair; D. Schmidt, Republican Vice Chair; Barlean; Benson; Boldt; Carlson; Clements; Cody; Crouse; Gombosky; Grant; Kagi; Keiser; Kenney; Kessler; Lambert; Linville; Lisk; Mastin; McIntire; McMorris; Mulliken; Parlette; Regala; Rockefeller; Ruderman; Sullivan; Tokuda and Wensman.

Staff: Kristen Reiber (786-7148).

Background:

The Emergency Reserve Fund was established in 1995 by Initiative 601 and consists of all General Fund--State revenues that are received each fiscal year in excess of the state General Fund expenditure limit. By a two-thirds vote of each house, the

Legislature may appropriate moneys from the Emergency Reserve Fund only if the appropriation does not exceed the state expenditure limit. Investment earnings are retained by the Emergency Reserve Fund.

If the Emergency Reserve Fund accumulates moneys in excess of 5 percent of biennial General Fund--State revenues, the excess amount is transferred to the Education Construction Fund for use in construction projects for the common schools and state institutions of higher education.

Fund balances in the state treasury are invested by the State Treasurer. By law, these investments are limited to various bonds, notes, certificates of deposit, and other specified fixed-income securities. The State Treasurer is not authorized to invest these balances in more aggressive investments, such as corporate stock. Recent investment earnings by treasury funds have averaged approximately 5.5 percent annually.

The State Investment Board was established in 1981 to provide for the long-term investment of various state permanent funds and trust accounts. By state constitutional amendments in 1965, 1968, and 1985, the Permanent Common School Fund and public pension and worker compensation funds were allowed to be invested in such instruments as the Legislature may authorize, including corporate stock. Recent investments of the public pension funds by the State Investment Board have earned an annual return of approximately 17 percent. This high rate of return can be attributed to the long-term nature of these trust funds and general stock market performance in recent years. These returns may not be achievable in the future for the pension funds, and they may not be achievable for funds with other asset allocations. Other investments may be more prudent for other funds and accounts.

A related measure, SJR 8208, amends the state constitution to permit the Legislature to authorize the investment of the Emergency Reserve Fund in corporate stock. In the absence of SJR 8208, the investment of the Emergency Reserve Fund would be limited to fixed-income investments.

Summary of Bill:

The authority to invest the Emergency Reserve Fund is transferred from the State Treasurer to the State Investment Board.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1999.

Testimony For: It is prudent to have more flexibility in investing the Emergency Reserve Fund. The better the earnings of the fund, the sooner the level is high enough to pour over into the Education Construction Fund.

Testimony Against: None.

Testified: Senator Loveland, prime sponsor.